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# DEMAND AND PRICE SITUATION



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FEBRUARY 1969

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

## Selected measures of economic activity

Item	Unit	1967				1968				Year		1968 1/
		II	III	IV	II	III	IV	I	II	1967	1968	
Gross national product	Bil. dol.	780.2	795.3	811.0	852.9	871.0	887.8	789.7	860.7			
Disposable personal income	Bil. dol.	541.5	550.0	559.6	586.3	592.7	602.5	546.3	589.0			
Personal consumption expenditures	Bil. dol.	490.3	495.5	502.2	527.9	541.1	546.3	492.2	533.7			
Food spending (excluding alcoholic beverages)	Bil. dol.	94.4	94.7	96.2	101.0	102.2	103.1	94.9	101.3			
Implicit price deflator for GNP	1958=100	116.6	117.7	118.9	121.2	122.3	123.5	117.3	121.8			
Unemployment rate 2/	Percent	3.8	3.9	3.9	3.6	3.6	3.4	3.8	3.6			
Cash receipts from farm marketings												
1 Farm production expenses	Bil. dol.	43.0	43.0	42.7	44.0	44.9	44.3	42.8	44.1			
2 Realized net farm income	Bil. dol.	34.9	35.0	35.0	35.9	36.2	36.3	34.8	35.9			
	Bil. dol.	14.4	14.2	13.9	14.8	15.4	14.8	14.2	14.9			
Agricultural exports 3/	Bil. dol.	1.6	1.4	1.8	1.5	1.4	1.7	6.4	6.2			
Agricultural imports 3/	Bil. dol.	1.1	1.1	1.1	1.3	1.3	1.2	4.5	5.0			
Prices received by farmers 4/	:1910-14=100:	251	255	252	259	263	262	253	260			
Livestock	do.	275	284	273	283	295	293	277	288			
Crops	do.	224	220	228	232	226	225	224	228			
Prices paid by farmers 4/ 5/	do.	341	343	344	354	355	359	342	354			
Wholesale price index, all commodities 4/	:1957-59=100:	105.8	106.3	106.4	108.5	109.0	109.5	106.1	108.7			
Consumer price index, all items 4/	do.	115.6	116.8	117.8	120.4	121.9	123.3	116.3	121.2			
All food	do.	114.2	116.2	115.8	118.7	120.3	120.9	115.2	119.3			

1/ Preliminary.

2/ Unemployment as a percent of the civilian labor force.

3/ Actual values, not seasonally adjusted annual rates.

4/ Not seasonally adjusted.

5/ Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.

# THE DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, February 6, 1969

## CONTENTS

	<u>Page</u>
Summary.....	3
Agricultural Situation.....	7
General Economic Situation.....	17
The 1970 Agricultural Budget in Brief.....	22

## SUMMARY \*

The current agricultural situation reflects substantially larger supplies of farm products and a very strong domestic demand. Supplies of beef, pork, chicken, fruits, and vegetables in early 1969 are running well above a year earlier. In addition, the large supplies of wheat and soybeans are in excess of prospective requirements.

Despite sluggish export demand, advances in domestic demand, especially for livestock products, have boosted average prices received by farmers in recent months by  $3\frac{1}{2}$  to  $4\frac{1}{4}$  above a year earlier. Since November, higher livestock prices have more than offset lower average prices for crops.

As the year progresses, supplies of major farm products, particularly food products, will continue heavy. Further growth in demand expansion and with price supports on major crops and dairy products suggest little change in farm product prices in 1969 from last year's levels.

Cash receipts to producers are expected to rise further in 1969, perhaps by about a billion dollars. Increases in

receipts to livestock growers will probably account for most of the gain, but crop receipts also are expected to increase.

Prospects for larger livestock and crop receipts hinge on an expanded volume of marketings. The volume of crop marketings in 1969 is expected to run larger, reflecting farmers' sales from the record 1968 crop and prospects for a large crop output in 1969. Meanwhile, 1969 farm programs have been designed to adjust output of major commodities more closely in line with utilization. Also, price supports for major crops are expected to help keep average crop prices near those of a year earlier.

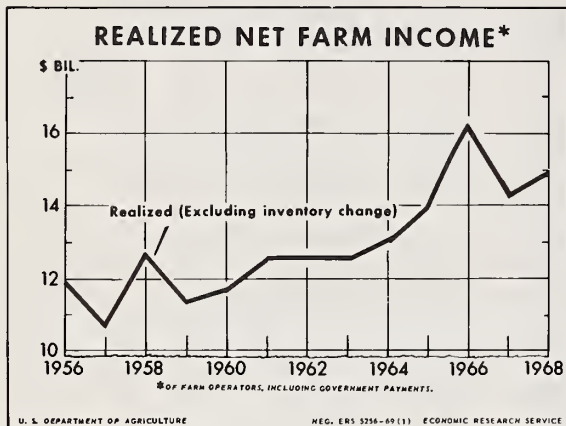
Direct Government payments to producers are also expected to total slightly larger this year. Realized gross farm income is expected to rise by around a billion dollars from the \$50.8 billion reported for 1968. Farm production expenses may increase more than the gain in

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\*The Summary of this report, along with a table on selected measures of economic activity, was released on February 6, 1969.



realized gross farm incomes. As a result, realized net farm income this year may not match the \$14.9 billion estimated for 1968. Farm numbers are declining, and realized net income per farm is expected to be around the year-earlier level of \$4,863.



The general economy made record advances in 1968 with real output growing more than the postwar average and more than double the gain for 1967. Personal incomes rose sharply in 1968 and corporate profits rebounded. But because of a buoyant demand and increasing cost pressures, prices accelerated and registered the largest increase since 1951.

Many economic indicators now point to a strong but somewhat slower demand expansion this year than in 1968. Federal spending is scheduled to rise more slowly. Since Government revenues are increasing, a budget surplus is in prospect for the first time in a number of years. Defense expenditures may increase slightly because of pay raises and rising prices. The anticipated rise in expenditures for domestic programs is mainly in mandatory social insurance benefits.

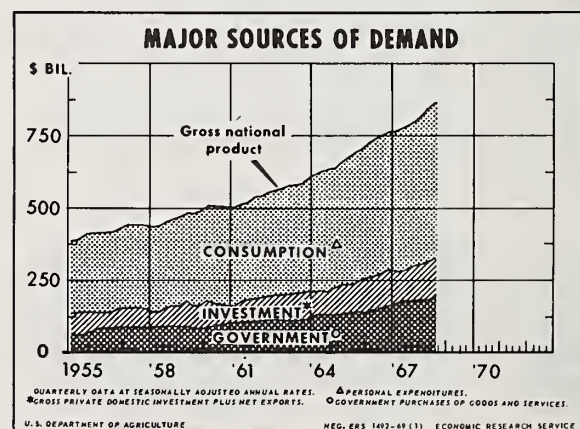
In the private sector, businessmen, encouraged by a substantial rise in corporate profits and a favorable long-term outlook, increased their spending plans for new plant and equipment in 1968. Capital expansion plans may have been influenced also by the fear of further advances in construction and credit costs.

However, plants are still operating below preferred rates and the inventory accumulation which took place in recent months may take time to absorb. These factors, plus recent tightening in fiscal and monetary policies, may tend to temper capital expansion programs as the year progresses.

Residential construction may keep expanding because of strong housing demand. However, credit conditions may limit the rise.

Total U.S. exports will probably show some improvement in 1969. A slower demand expansion in the economy would improve our competitive position and encourage a pickup in our net exports.

Rising personal incomes and anticipation of higher prices encouraged a sharp increase in consumer spending in 1968. The overall rise was marked by a strong advance in spending for durable goods, especially automobiles. However, by the fourth quarter, retail sales were leveling off. In early 1969, the unusually large settlement on 1968 tax liabilities and increased social security taxes are expected to slow the gains in disposable incomes. This may moderate advances in consumer spending in 1969 unless offset by a decline in personal savings. Any slackening in incomes would be reflected in a slower advance in sales of food and other goods.

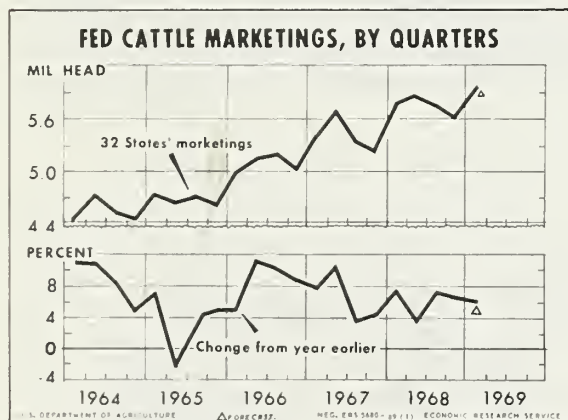


The outlook for 1969 indicates generally larger food supplies. Bigger supplies of red meats, chicken, fruits, and

vegetables are expected in the first half of 1969. Although it is still early to forecast the size of the 1969 food crops, for the year as a whole food supplies may total as much as 2% above year-earlier levels. These supply increases coupled with prospects for less exuberant demand expansion may limit retail food price increases for 1969 to around 2 to 2½% compared with a rise of 3½% from 1967 to 1968.

...The outlook for major farm commodities...

...Increases in fed cattle marketings in first half 1969 are expected to produce significant gains in beef output. Competition with pork and broilers, may intensify. Nevertheless, a strong demand for beef may largely offset pressures from larger supplies on prices.



...Pork supplies will be plentiful again and larger than in 1968. Hog slaughter in the first half is expected to rise 4-5% over a year earlier. Moreover, farrowing intentions indicate substantial output gains for the rest of the year. Prices are expected to drop below a year earlier in late winter and continue under pressure into late 1969.

...Broiler output in the first quarter of 1969 will probably be up 4-5% from a year earlier. Prospects indicate an even larger increase this spring. Prices, currently near those of a year earlier,

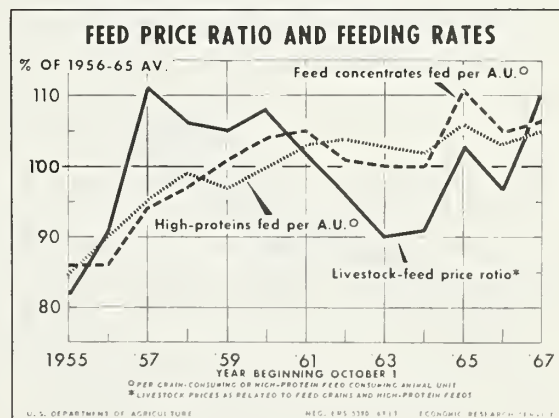
may ease some if larger supplies materialize.

...Turkey growers intend to raise 3% more turkeys in 1969. However, production may lag year-earlier rates until around midyear. Large cold storage stocks are expected to hold prices near current levels into mid-1969.

...Egg output is expected to trail a year earlier, and prices will probably continue higher through the first half of 1969. After midyear, production may run larger than a year earlier.

...Milk production in 1969 may again trend down slightly. Gains in output per cow are not expected to offset the effect of declines in cow numbers on total output. Milk prices are expected to average above a year earlier.

...Feed grain supplies are slightly larger in 1968/69 because of the bigger carryin. More animals and favorable livestock-feed price ratios indicate that domestic use may more than offset some decline in exports. Ending stocks may total a shade below last year's 48 million tons.



...Wheat supplies in 1968/69 are larger because of the record crop and a bigger carryover. Sharply reduced exports this season are expected to result in a further buildup in stocks. Winter wheat



acreage seeded for harvest in 1969 is down about 13% from a year earlier.

...Rice supplies in 1968/69 are at a new high because of the record 1968 crop. Domestic use is expected to be near that of last year. As a result, carryover next summer will depend primarily on the level of exports.

...Soybean supplies are substantially larger for the 1968/69 marketing year. Although domestic use and exports are expected to expand slightly, bigger supplies have held prices a shade below the price support level. Carryover stocks by the end of the current season are expected to be up sharply.

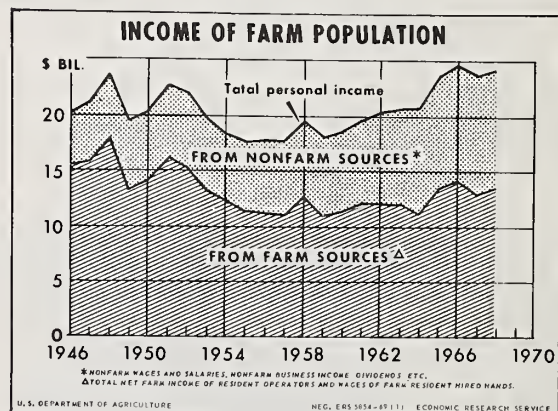
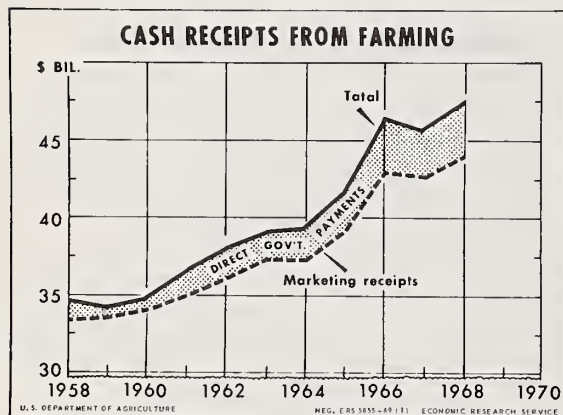
...The 1968 cotton crop was up over 45%, compared to the small 1967 crop. But smaller beginning carryover reduced 1968/69 supplies. Domestic and export demand have been weak this season. A carryover next August near 6 million bales is likely, about  $\frac{1}{2}$  million below last summer's carryover.

...Processed vegetable supplies are record large for the 1968/69 marketing year. Prices for most items are below a year ago and are expected to continue under pressure through winter and spring. Fresh vegetable supplies in coming months are also the largest in several years; prices are expected to average substantially below last year's record highs.

...Supplies of fresh citrus and most processed fruits are expected to run substantially larger than a year earlier through the first half of 1969. Prices will likely average lower.

...Tobacco supplies are smaller but ample in 1968/69. If total use holds level, carryover at the end of the current marketing season will drop slightly.

...Sugar production rose substantially in 1968/69. A one-third larger beet crop more than offset a small cut-back in cane output.





## AGRICULTURAL SITUATION

Supplies of farm products rose to record levels in 1968, but rapidly expanding demand, liberalized resale loan programs, and higher dairy supports, contributed to a 3% rise in farm product prices compared to a year earlier. Cash receipts for the year totaled about \$1.3 billion higher than in 1967 and realized net income showed a gain of nearly 5%.

As agriculture moves into 1969, supplies are very large for major food products such as red meat, broilers, fresh citrus fruit and vegetables. In addition, the large supplies of wheat and soybeans are in excess of prospective requirements.

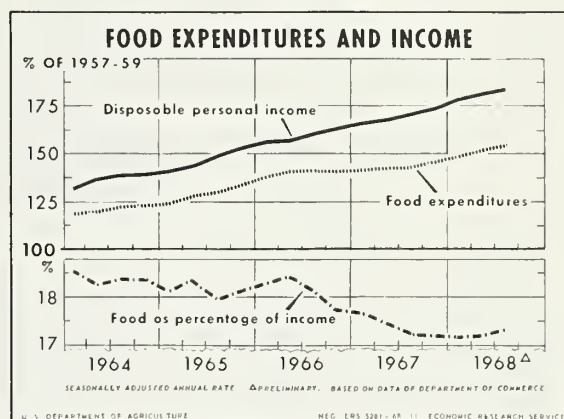
Even with these increases, prices are holding up well. Mid-January farm product prices averaged  $3\frac{1}{2}\%$  above those of a year earlier, with stronger livestock prices offsetting declines for crops. Market prices continued firm in early February.

Looking at 1969 as a whole, supplies of farm products are expected to continue larger than a year earlier. Domestic demand for farm products will expand, although the increase may moderate from the 1968 pace. Foreign demand for U.S. farm products probably will grow little if at all during 1969, although the volume of exports is expected to continue large.

Current overall market strength and prospects for larger supplies point to average farm prices in 1969 near those of last year. And, with expected increases in the volume of marketings, cash receipts to producers are expected to rise again in 1969. Government payments are also scheduled to expand. In total, gross farm income will likely increase around a billion dollars. But rising farm production expenses may more than offset prospective gains in realized gross income. As a result, realized net farm income may not match the \$14.9 billion estimated for 1968.

### Domestic Demand

Domestic markets represented the major source of demand expansion for farm products in 1968. Consumer disposable incomes made rapid advances last year, and boosted food expenditures (excluding alcoholic beverages) to \$101 billion, nearly 7% above the 1967 level. Slightly more than half of the rise in food spending was due to higher retail prices. The rest came from an increased volume of food consumption plus use of more expensive foods and food preparations. Even with this increase in expenditures for food, the percentage of disposable personal income spent for food declined further in 1968, to a record low of 17.2%.



Food spending is expected to play a major role in expanding the demand for farm products again in 1969. However, increases in food expenditures will probably be more moderate than in 1968 because of prospects for slower gains in consumer disposable incomes.

Retail food prices in 1968 averaged slightly more than  $3\frac{1}{2}\%$  above the year-earlier level. Prices for food eaten away from home continued to show the sharpest rise, averaging more than 5% higher, while grocery store food prices averaged a little more than 3% above those of a year earlier.

Among the foods eaten at home, price increases were fairly widespread and most pronounced for fruits and vegetables, beef and veal, dairy products, and eggs.

The outlook for 1969 indicates generally larger supplies of food products. Supplies of beef, pork, chicken, fresh and processed fruits and vegetables in the first half of 1969 are expected to run well above year-earlier levels. In addition, by midyear, production of turkey and eggs is expected to at least match the 1968 pace. For the year as a whole, it is still early to forecast the size of the 1969 crops, but food supplies may total as much as 2% above those in 1968. Prospects for substantially larger supplies combined with the outlook for relatively moderate gains in consumer income suggest a much slower rise in retail

food prices than the rapid increase last year. For the year, retail prices for all foods are expected to average in the neighborhood of 2 to 2½% above 1968. Prices for food eaten away from home will probably continue to advance around 5% or more, while prices for food at home may average around 1 to 2% higher than in 1968.

#### Foreign Markets

U.S. exports of agricultural products during July-December 1968 totaled \$3.1 billion, about 3% less than that of a year earlier (table 1). A step-up in the export value of animal products, oilseeds, and tobacco was slightly more than offset by a drop in the value of cotton and grain exports.

Table 1.--U.S. agricultural exports, value of major commodities,  
July-December 1967 and 1968

Commodity	July-December		Percentage change
	1967	1968 <sup>1/</sup>	
	Mil. dol.		Percent
Cotton, excluding linters	187	172	-8
Dairy products	47	75	60
Feed grains, excluding products	537	463	-14
Fruits and preparations	161	152	-6
Soybeans	397	456	15
Tobacco, unmanufactured	285	315	11
Vegetables and preparations	78	81	4
Wheat and flour	669	492	-27
Rice	129	138	7
Other	702	764	9
Total exports <sup>3/</sup>	3,192	3,109	-3

<sup>1/</sup> Preliminary.

<sup>2/</sup> Change computed from unrounded data.

<sup>3/</sup> Totals may not add due to rounding.



During July-November 1968, exports totaled about 5% below the year-earlier pace. But shipments picked up sharply in December due to trade efforts to move products through U.S. ports prior to the longshoremen's strike which began on December 20.

For the rest of fiscal year 1968/69, the outlook is for a smaller volume of wheat and cotton exports than a year earlier. However, exports of animal products, soybeans, fruits, and vegetables are expected to increase somewhat over the previous year. The longshoremen's strike will no doubt dampen prospects for the second half of fiscal 1969. Even with a surge to make up for losses because of the strike, neither the volume nor value of exports during January-June 1969 will likely match the year-earlier level.

Imports of agricultural products moved into the United States at a rapid clip during July-December 1968, totaling \$2.6 billion, 15% more than a year earlier. Part of the increase may have been due to uncertainty in labor conditions at East Coast and Gulf ports. However, import demand recently has been fairly widespread and very strong, especially for coffee beans, tea, spice, rubber, oils, and drugs.

### Livestock Products

Output of livestock and products has risen in each of the past 3 years, and there are solid reasons to look for substantial gains again in 1969. During 1968, a 3% rise in beef output and a 4% increase in pork production more than offset declines in other livestock products. Despite some increase in output, sharp advances in consumer demand resulted in a 4% rise in average producer prices for livestock. Higher livestock prices in 1968 combined with relatively low feed costs resulted in fairly profitable feeding margins and set the stage for further advances in livestock output in coming months.

### Livestock-feed price ratios

Year	Beef steer- corn	Hog- corn 1/	Broiler- feed 2/	Milk- feed 2/
1967: I	18.0	14.6	2.7	1.54
II	18.6	15.8	2.9	1.45
III	22.0	17.8	2.9	1.56
IV	24.0	17.0	2.7	1.69
1968: I	24.3	17.4	3.1	1.66
II	23.7	17.4	3.3	1.59
III	26.0	19.5	3.4	1.71
IV	25.8	17.5	3.0	1.83
Percentage gain 1968/67				
1968/67				
I	35.0	19.2	14.8	7.8
II	27.4	10.1	13.8	9.7
III	18.2	9.6	17.2	9.6
IV	7.5	2.9	11.1	8.3

1/ Number of bushels of corn equal in value to 100 pounds of liveweight production.

2/ Number of pounds of feed equal in value to pound of output.

In addition to higher livestock-feed price ratios throughout 1968, current reports of livestock on feed and breeding plans indicate a sizable expansion in red meat supplies for 1969. In January, cattle feeders reported 10% more cattle on feed than a year earlier; they planned to market about 6% more fed cattle in January-March than they did last year. Fed cattle marketings are expected to continue well above a year earlier at least into summer. The current outlook also strongly points to increased pork production throughout 1969. Pork production (carcass weight basis), during the first half of 1969, is expected to run as much as 4-5% above that in the same period last year. These substantial increases in beef and pork production will more than offset declines in lamb and veal output.

Cattle and hog prices held up well in 1968 in view of the increases in red



meat supplies. However, if the prospective increases in red meat and broiler supplies materialize, along with a probable slower growth in demand, meat animal prices are likely to be under some pressure in 1969. Even so, producer prices for meat animals in the next few months are expected to average close to year-earlier levels.

Production of poultry meat (chicken and turkey) declined in 1968 due mainly to a smaller turkey crop. Reduced supplies of poultry and rapidly advancing demand last year brought higher prices despite larger red meat supplies. Increased broiler prices along with relatively favorable feed costs in 1968 are contributing to an expansion in broiler output. For the first half of 1969, a 4-5% in-

crease in production now seems likely. An increase this large will probably result in broiler prices averaging moderately below a year earlier in the spring, particularly if significant gains in red meat production occur. On the other hand, turkey slaughter will run below a year earlier until mid-1969. However, large cold storage stocks of turkey may hold prices during the period near current levels. Egg output also began to drop off around mid-1968 from the high level in 1967. And by the fourth quarter, egg prices were running 30% above those in late 1967. Layer replacements have been picking up since midyear, but egg output will likely lag year-earlier levels until mid-1969. As a result, egg prices are expected to continue strong until late summer.

Table 2.--Production and prices received by farmers for major livestock and livestock products, 1966, 1967, 1968, and fourth quarters of 1967 and 1968

Item	Unit	Annual			Fourth quarter	
		1966	1967	1968 <u>1/</u>	1967 <u>1/</u>	1968 <u>1/</u>
<u>Production 2/</u>						
Cattle and calves	Mil. lb.	20,636	21,011	21,625	3/5,124	3/5,417
Hogs	Mil. lb.	11,339	12,581	13,030	3/3,391	3/3,560
Sheep and lambs	Mil. lb.	650	646	600	3/154	3/147
Chickens	Mil. lb.	7,309	7,537	7,459)	3/2,611	3/2,544
Turkeys	Mil. lb.	1,685	1,881	1,637)		
Eggs	Mil. lb.	8,698	9,180	9,075	2,295	2,217
Milk	Bil. lb.	119.9	119.3	4/117.8	4/27.3	4/27.2
<u>Prices received by farmers</u>						
Cattle	Dol./cwt.	22.20	22.30	23.30	21.80	23.20
Hogs	Dol./cwt.	22.80	18.90	18.60	17.30	17.70
Lambs	Dol./cwt.	23.40	22.10	24.30	21.80	24.30
Chickens	Ct./lb.	14.7	12.7	14.0	11.4	12.7
Turkeys	Ct./lb.	23.1	19.5	19.6	18.8	21.1
Eggs	Ct./doz.	39.1	31.2	33.8	30.3	39.4
All milk (wholesale)	Dol./cwt.	4.81	5.02	5.26	5.31	5.64

<sup>1/</sup> Preliminary. <sup>2/</sup> Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. <sup>3/</sup> Data for 48 States. Commercial slaughter only. <sup>4/</sup> Based on monthly data.

Current prospects point to another slight drop in milk output in 1969. Last year production dipped to a 16-year low. Looking to 1969, output per cow is expected to continue to pick up, but the gain may not be large enough to offset the effect of declines in cow numbers on production. Producer prices for milk in 1969 will continue about 5% above 1968 levels through March. Continuation of present price supports and the current Class I pricing in Federal order markets announced in December would result in prices for the year averaging slightly above 1968 levels.

### Crop Output and Supplies

U.S. farmers produced another bumper crop in 1968. Record large 1968 crops of food grains and oilseeds were harvested. In addition, a more than 45% larger cotton crop and substantially bigger crops of processing vegetables, deciduous fruits, and sugar beets contributed to a 2% overall rise in total crop output from 1967 (table below). The only major crops showing declines from a year earlier were feed grains, potatoes, tobacco, and hay.

U.S. crop production: Index  
numbers of production of  
crops, 1967 and 1968

(1957-59=100)			
Item	: 1967	: 1968	: Per-
	: 1/	: 2/	centage
	:	:	change
	:	:	: 1968/67
All crops 3/	: 117	119	2
Feed grains	: 124	118	-5
Hay and forage	: 115	114	-1
Food grains	: 134	141	5
Vegetables	: 110	113	3
Sugar crops	: 137	162	18
Cotton	: 61	88	45
Tobacco	: 114	99	-13
Oil crops	: 171	188	10

1/ Preliminary. 2/ Indicated. 3/ Includes other products not included in the separate groups above.

It is still too early to estimate output of the 1969 crops since most of them have not yet been planted. However, if average growing conditions prevail, total crop output in 1969 may be around the record 1968 level. The 1969 Feed Grain Program is designed to encourage a crop slightly below total requirements by increasing diverted acreage from 32 million acres in 1968 to 37 million in 1969. The 1969 wheat allotment, at 51.6 million acres, is 13% less than the 1968 level. On the other hand, the 1969 Upland Cotton Program is designed to encourage greater plantings. Acreage diversion will not be required for cotton cooperators and payments will not be made for voluntary diversion. Although the loan rate for cotton is unchanged for the 1969 crop, the price support payment is up sharply. The effective poundage quota for flue-cured tobacco is about a tenth larger in 1969 because of under marketings in 1968, but the burley acreage allotment is virtually unchanged from last year's level.

A substantial improvement in crop yields last year more than offset a small cutback in harvested acreage. Despite the larger 1968 crops, grower prices for the calendar year averaged 2% higher. Prices strengthened in early 1968 because of smaller 1967 crops of cotton and fruit, and reduced output of fresh vegetables. Liberalized resale privileges later in the year bolstered grain and soybean prices. Following harvests, substantially more 1968 grains and soybeans moved under loan through December, and feed grain prices though low in the summer registered a stronger than usual seasonal rise. Recently, however, average crop prices have been running below those of a year earlier, due primarily to low fruit, cotton, and food grain prices.

Moving into 1969, supplies of crop products are much larger than those in the 1967/68 marketing season. Supplies of fruits and vegetables are substantially larger. Record canned and frozen vegetable supplies have depressed wholesale prices. Stocks of processed vegetables are expected to hold markets under pressure well into the 1969 packing season.



Table 3.--Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, 1967/68, and 1968/69

	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
<b>Feed grains</b>										
1965/66	Mill. tons	54.8	0.3	157.4	212.5	141.3	29.1	170.4	42.1	2/1.16
1966/67	Mill. tons	42.1	.3	157.6	200.0	140.9	22.0	162.9	37.1	2/1.24
1967/68 p.	Mill. tons	37.1	.3	176.0	213.4	142.2	23.3	165.5	47.9	2/1.04
1968/69 e.	Mill. tons	47.9	.3	168.1	216.3	147.8	21.5	169.3	47.0	2/1.05
<b>Wheat</b>										
1965/66	Mill. bu.	817.3	.9	1,315.6	2,133.8	731.2	867.4	1,598.6	535.2	1.35
1966/67	Mill. bu.	535.2	1.7	1,311.7	1,848.6	679.3	744.3	1,423.6	425.0	1.63
1967/68 p.	Mill. bu.	425.0	.9	1,522.4	1,948.3	649.7	761.1	1,410.8	537.5	1.39
1968/69 e.	Mill. bu.	537	1	1,570	2,108	(730-780)	(600-625)	(1,330-1,405)	(703-778)	1.22
<b>Rice</b>										
1965/66	Mill. cwt.	7.7	.7	76.3	84.7	3/33.0	43.3	76.4	8.2	4.93
1966/67	Mill. cwt.	8.2	4/	85.1	93.3	3/33.1	51.6	84.7	8.5	4.95
1967/68 p.	Mill. cwt.	8.5	4/	89.4	97.9	33.6	---	---	---	4.97
1968/69 e.	Mill. cwt.	6.8	4/	105.3	112.1	---	---	---	---	---
<b>Soybeans</b>										
1965/66	Mill. bu.	29.7	0	845.6	875.3	589.1	250.6	839.7	35.6	2.54
1966/67	Mill. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68 p.	Mill. bu.	90.1	0	976.1	1,066.2	633.0	266.6	899.6	166.6	2.49
1968/69 e.	Mill. bu.	166.6	0	1,079.7	1,246.3	646	285	931	315	2.42
<b>Cotton 5/</b>										
1965/66	Mill. bales	14.3	.1	14.8	29.3	9.5	2.9	12.4	16.9	28.14
1966/67	Mill. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.5	20.84
1967/68 p.	Mill. bales	12.5	.1	7.2	19.9	9.0	4.2	13.2	6.5	25.60
1968/69 e.	Mill. bales	6.4	.1	10.8	17.4	---	---	---	---	---

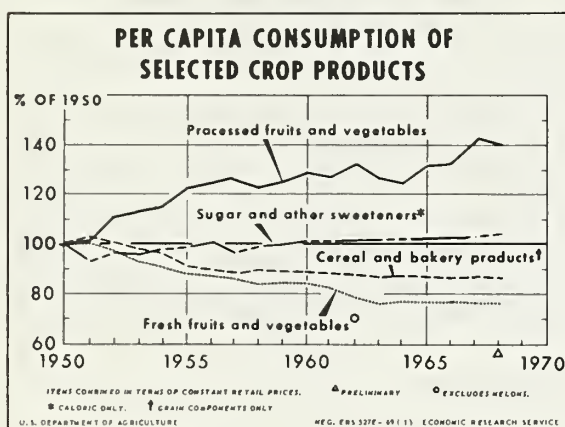
1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Includes the following statistical discrepancies; 1965/66, 2.2 and 1966/67, 1.2 mil. cwt. 4/ Less than 50,000 cwt. 5/ Total cotton supply includes city crop and production prior to August 1 (end of season).

p. Preliminary. e. Estimated.

Details may not add to totals due to rounding.



In addition, fresh winter vegetable production is currently estimated 9% larger and grower prices are well under the record highs of last year. Among the fruits, the 1968/69 citrus crop is currently forecast about 30% larger than last year and prices, although holding up moderately well, are below the highs of a year ago. December freezes in Florida, California, and Arizona cut potential volume moderately. Freeze damage also substantially reduced juice content of Florida oranges. Deciduous fruit supplies, except for apples, are also substantially larger than last year, and prices are running moderately lower.



Because of the big 1968 crops and large carryover stocks, 1968/69 grain and soybean supplies are running larger than those of last season (table 3). Although domestic use is expanding some, grain exports are lagging. By the end of the current season, feed grain stocks may be down slightly from last year's 48 million tons, but the wheat carryover by next July is expected to climb to a level somewhere between 700 and 775 million bushels compared with last season's 537 million. Even with some increase in total utilization, soybean supplies are large enough to result in carryover stocks in excess of 300 million bushels, compared with 167 million last year.

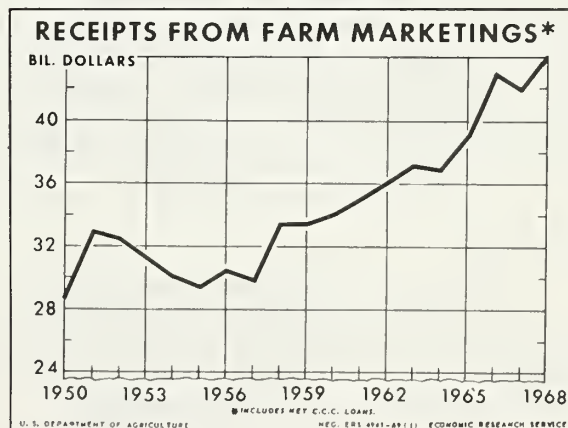
Although the 1968 cotton crop expanded sharply, smaller beginning stocks reduced 1968/69 cotton supplies. Even though domestic and export demand has

weakened some this year, prospective use for the season is expected to exceed the crop and result in a carryover around 6 million bales, 1/2 million below last year's.

Tobacco supplies are also smaller but ample this season. If total use holds up to last year's level, carryover at the end of 1968/69 would drop about 1/4 billion pounds from the previous year's 4.1 billion. Domestic cigarette use during calendar 1969 may be hard put to match the 1968 consumption level. In coming months, price advances and smoking-health publicity are expected to weigh against cigarette consumption.

### Farm Income

Supply and price prospects suggest some further gain in producers' cash receipts for 1969. If supplies of livestock and livestock products expand as expected, the volume of marketings in 1969 may run as much as 2 to 3% above those of a year earlier. Most of the increase is expected to come from larger marketings of fed beef, hogs, and broilers. Although prospective supplies are large and demand is expected to grow less vigorously in 1969, an expanding population and strong preference for livestock products are expected to hold average producer prices for the year near 1968 levels. If these prospects for larger marketings and little change in average prices materialize, cash receipts for livestock products may run 2 to 3% above the \$25.6 billion in 1968.



In the crop sector, prospects for cash receipts are perhaps less certain than those for livestock products. However, with record 1968/69 crop supplies and prospects for another large crop this year, a sizable increase in the volume of crop marketings may occur. Large supplies are currently putting prices under some pressure. Although prices for some crops may strengthen seasonally later, average crop prices received by farmers for the year may be near 1968 levels. With larger marketings, cash receipts indicated for crops may run only slightly above the \$18.5 billion in 1968. In addition, direct Government payments are expected to expand slightly due primarily to larger price support payments in the 1969 voluntary diversion programs. As a result, realized gross farm income in 1969 is expected to increase around a billion dollars from the \$50.8 billion in 1968.

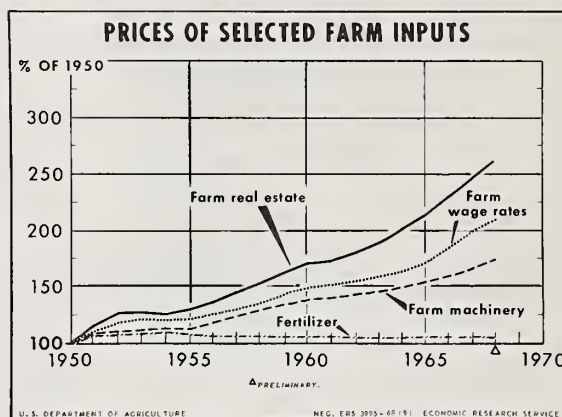
Rapid advances in farm production expenses will continue and may be large enough to more than offset the prospective gain in gross farm income. Farm production expenses increased about \$1.1 billion in 1968. About half the increase was in miscellaneous operating expenses and livestock purchases. Prices paid for production items are expected to increase further this year, but perhaps less than the comparatively large increase in 1968.

If the increase in farm production expenses in 1969 is larger than in 1968 as now appears likely, realized net farm income may fall a little short of the \$14.9 billion reported for 1968. Farm numbers will continue to decline and realized net income per farm is not expected to change much from the \$4,863 in 1968. In addition, many farmers, particularly those with small farms, will continue to supplement their incomes through off-farm wages and other income.

#### Farm Costs

Although average prices received by farmers advanced in 1968, prices farmers paid for most production and capital items rose even more. The prices paid index for production items (including interest, taxes, and wage rates) in 1968 averaged

nearly  $3\frac{1}{2}\%$  higher than in 1967. Prices paid advanced throughout the year, and in December the index was  $4\frac{1}{2}\%$  over the same month a year earlier. Most major items shared in the rise though feed and fertilizer prices declined. Higher farm wage rates led the list with an 8% rise for the year. Current prospects indicate further increases for most major farm costs in 1969. However, if general economic pressures slacken as now expected, increases in prices paid by farmers this year may be smaller than in 1968.



Farmers applied more fertilizer in 1968 although the increase was smaller than in other recent years. On a total nutrient basis, consumption was up 6% from a year earlier. A continuation of low fertilizer prices in 1969 and little change in major farm programs is expected to encourage a further increase in fertilizer consumption.

Farm machinery and equipment sales have been sluggish for the past 2 years. Although the total value of farm machinery shipments in 1968 ran only a shade below the year-earlier rate, prices averaged nearly 5% higher and the volume of sales was down moderately. However, with cutbacks in the production of machinery last year, dealer inventories have recently been reduced to more reasonable levels.



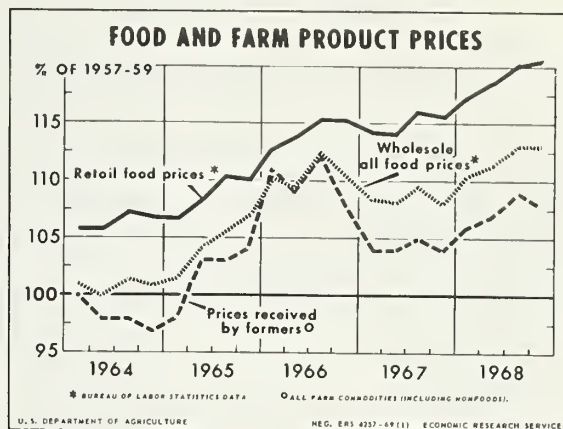
As a result, some sources now suggest a small rise in the value of shipments for 1969; volume would also likely be slightly larger. 1/ 2/

Expenditures for farm construction (residential and nonresidential facilities), which declined slightly in 1968, are expected to expand moderately in 1969. This anticipated increase has apparently been encouraged by the improvement in 1968 farm income. However, much of the rise in spending will probably come in the form of higher building costs. 2/

#### Farm Real Estate

The average value of farmland rose 6% in the year ended November 1968. Gains were largest in the Southeast and Delta Regions, while the Pacific States showed the smallest rise. The average value per acre for all farmland on November 1 was \$184 per acre. This compares with \$116 per acre in 1960. Land values

are expected to advance further in 1969, but the rise is expected to be slower than last year.



1/ 1969 Agricultural Finance Outlook, Economic Research Service, Department of Agriculture.

2/ U.S. Industrial Outlook, Business and Defense Services Administration, Department of Commerce.

The Demand and Price Situation is published  
February, May, August, and November. The next issue  
is scheduled for release in May 1969.



Table 4.--General economic activity

(seasonally adjusted annual rates)

Item	1968				Year	Year
	I	II	III	IV <u>1/</u>	1967	1968 <u>1/</u>
	Billion dollars					
Gross national product	831.2	852.9	871.0	887.8	789.7	860.7
Gross national product (1958 prices)	692.7	703.4	712.3	719.1	673.1	706.9
Disposable personal income	574.4	586.3	592.7	602.5	546.3	589.0
Personal consumption expenditures	519.4	527.9	541.1	546.3	492.2	533.7
Durable	79.0	81.0	85.1	84.8	72.6	82.5
Nondurable	226.5	228.2	232.7	233.5	215.8	230.2
Services	213.9	218.7	223.4	228.0	203.8	221.0
Personal savings	40.8	44.0	37.1	41.4	40.2	40.8
Net Government receipts	180.3	184.4	195.4	---	164.6	---
Government purchases	190.5	195.7	199.6	202.5	178.4	197.1
Federal	97.1	100.0	101.2	101.6	90.6	100.0
State and local	93.4	95.6	98.4	100.8	87.8	97.1
Deficit or surplus (on in- come and product accounts)	-10.3	-11.3	-4.1	---	-13.8	---
Gross private domestic investment	119.7	127.3	127.1	136.1	114.3	127.5
Fixed investment	117.6	116.5	119.6	126.0	108.2	120.0
Residential	29.1	29.5	29.5	31.8	24.6	30.8
Nonresidential	88.6	87.0	90.1	94.2	83.6	90.0
Change in business inventories	2.1	10.8	7.5	10.0	6.1	7.6
Gross retained earnings	92.8	97.4	99.9	---	93.1	---
Excess of investment	-26.9	-29.9	-27.2	---	-21.1	---
Net exports of goods and services	1.5	2.0	3.3	3.0	4.8	2.4
Per capita disposable per- sonal income (1958 dollars)	2,454	2,474	2,478	2,483	2,401	2,473
Total civilian employment (Million) <u>2/</u>	75.6	75.8	76.0	76.4	74.4	75.9

1/ Preliminary.2/ U.S. Department of Labor.

U.S. Department of Commerce.

## GENERAL ECONOMIC SITUATION

The economy made record advances in 1968. The rise in real output was more than double the gain for 1967, and well above the average postwar growth rate. Personal incomes rose sharply as wage rates increased and the unemployment rate reached its lowest point in 15 years. Corporate profits rebounded sharply from their 1967 decline. But because of big advances in private and public demand, and despite gains in productivity, the upward trend in the price level accelerated in 1968--registering its largest increase since 1951.

Many important indicators of aggregate economic activity continue to expand but at a slower rate than last year. Prospective purchases by consumers and scheduled Government outlays indicate that the economy will continue to advance in 1969 but not at the very rapid pace of 1968. For the year, the gross national product is expected to increase around 7% compared with a 9% rise in 1968. The Council of Economic Advisers has estimated a 7% increase in the gross national product for 1969 with about half the gain due to a further advance in the general price level.

GNP and final sales, change  
from previous quarter

Year	GNP	Final sales	Inventory change <u>1/</u>
		Bil. dol.	
1966: I	18.4	17.2	1.2
II	12.0	7.5	4.5
III	12.9	15.5	-2.6
IV	14.9	7.9	7.0
1967: I	4.0	15.4	-11.4
II	8.0	14.1	-6.1
III	15.1	12.1	3.0
IV	15.7	12.7	3.0
1968: I	20.2	26.4	-6.2
II	21.7	13.0	8.7
III	18.1	21.4	-3.3
IV <u>2/</u>	16.8	14.3	2.5

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the fourth quarter of 1968 (\$10.0 billion) less the change in the third quarter of 1968 (\$7.5 billion) equals plus \$2.5 billion.

2/ Preliminary.

## Outlook for 1969

The economy continues strong with income and output still advancing rapidly.

Major GNP components, change  
from previous quarter

	1968		
Item	II	III	IV
	qtr.	qtr.	qtr.
			1/
	Bil. dol.		
Total change in GNP	21.7	18.1	16.8
Consumption	8.5	13.2	5.2
Private nonresiden- tial fixed invest- ment	-1.6	3.1	4.1
Housing	.4	0	2.3
Inventory <u>2/</u>	8.7	-3.3	2.5
Net exports	.5	1.3	-3
Government	5.2	3.9	2.9

1/ Preliminary. 2/ See footnote 1/,  
previous text table.

Government Expenditures  
and Receipts

Partly to help ease the demand pressures and slow rising prices, the Federal Government reduced the advance in its purchases of goods and services during the last half of 1968. Moreover, the tax surcharge on corporate and personal incomes and the extension of some excise rates at midyear have increased revenues. These actions sharply reduced the Federal deficit, and should begin to ease demand pressures on economic activity.

Table 5.--Federal receipts and expenditures in the  
national income accounts, semi-annually 1966-68

Description	1966		1967		1968	
	First	Second	First	Second	First	Second
	half	half	half	half	half	half <u>2/</u>
RECEIPTS, NATIONAL INCOME BASIS						
Personal tax and nontax	59.4	63.9	65.6	69.0	73.4	85.2
Corporate profits tax accruals	32.3	32.5	30.4	31.5	37.6	38.8
Indirect business tax and non-						
tax accruals	15.6	16.0	16.0	16.4	17.2	18.0
Contributions for social						
insurance	32.2	34.2	36.2	37.4	40.8	42.2
Total receipts, national						
income basis <u>3/</u>	139.4	146.6	148.2	154.3	169.2	184.2
EXPENDITURES, NATIONAL INCOME						
BASIS						
Purchases of goods and						
services	74.0	80.7	88.7	92.4	98.6	101.4
Transfer payments	34.4	37.0	41.8	42.8	46.4	49.1
Grants-in-aid to State and						
local Governments	13.8	15.0	14.8	16.4	18.0	18.8
Net interest paid	9.2	9.8	10.0	10.4	11.6	12.2
Subsidies less current surplus						
of Government enterprises	5.2	5.7	5.0	4.7	4.0	4.3
Total expenditures,						
national income basis <u>3/</u>	136.6	148.2	160.4	166.8	178.5	185.8
SURPLUS (+) OR DEFICIT (-)						
NATIONAL INCOME BASIS	2.8	-1.6	-12.2	-12.6	-9.4	-1.6

1/ Calendar years in billions of dollars, seasonally adjusted annual rates.

2/ Preliminary. Corporate profits tax accruals estimated by USDA.

3/ Totals may not add due to rounding.

U.S. Department of Commerce.



Federal purchases are expected to rise slightly above their present levels during the first half of 1969 with some increase due to rising costs of mandatory programs. The budget for fiscal 1970 provides for further but modest increases in expenditures during the second half of calendar 1969. However, budgeted increases for fiscal 1970 assume the extension of the tax surcharge to July 1970.

Because the surtax on personal incomes was made retroactive to April 1968, many taxpayers may have to pay a larger than usual share of their income tax in the second quarter of 1969 when they settle their tax obligations. Larger tax payments would tend to slow gains in disposable personal income in the first half.

Expenditures by State and local governments for goods and services rose by more than 10% in 1968, only slightly less than the rise in 1967. For 1969, these expenditures are expected to continue to advance. But the increase probably will be somewhat slower than in 1968 due to an expected slight drop in receipts from indirect business taxes. The upward trend of grants-in-aid to States from the Federal Government will probably not be affected by the general slowing in Federal expenditures.

#### Investment Demand

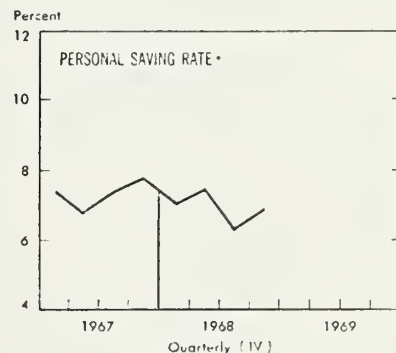
Business fixed investment made a substantial recovery in 1968, rising over  $2\frac{1}{2}$  times as much as in 1967. Much of this increase occurred in the second half of 1968, following a brief decline in the second quarter. The increase in 1968 was primarily for new producers' durable equipment. Private and public surveys of business investment plans compiled recently indicate another sizable rise in investment in 1969 despite increased taxes, relatively low plant operating rates, and a recent rapid inventory accumulation. The Department of Commerce-SEC survey reports that businessmen plan to increase their plant and equipment expenditures by about 9% in the first half of 1969.

Planned increases in investment outlays may have been influenced by the substantial rise in 1968 corporate profits, increased economic activity, the fear of further increases in construction and credit costs, and by a favorable long-term economic outlook. However, some recent tightening in fiscal and monetary policies may tend to temper investment plans as 1969 unfolds.

Strong demand for housing and some improvement in the financial environment apparently raised housing expenditures throughout 1968. Despite a tightening of credit, new housing starts and expenditures continued upward in the last quarter of 1968. Construction outlays are expected to continue upward in 1969; rising building costs and higher interest rates are apparently being absorbed by relatively prosperous consumers squeezed by rising rents and low vacancy rates.

#### Consumer Demand

Consumer spending provided the bulk of demand expansion in 1968. Rising personal incomes and generally lower personal savings enabled consumers to spend at record rates. The overall rise was marked by a strong advance in purchases of durable goods, especially automobiles.



Consumer spending continued to gain in the third quarter even after a jump in personal income taxes. However, by the

end of the fourth quarter retail sales were leveling off providing some evidence that the surtax and higher prices were beginning to limit sales. With production continuing to rise, the moderation of consumer spending in the fourth quarter resulted in a substantial accumulation of inventories by year-end.

In the first half of 1969, the unusually large settlement on 1968 tax liabilities and the increased social security taxes are expected to further slow the advance in after-tax consumer incomes. If consumers continue to save at the higher fourth quarter rate, spending is expected to grow more slowly. Some pickup in consumer expenditures may develop later in the year as tax settlements are completed and personal incomes continue to rise.

### Income and Employment

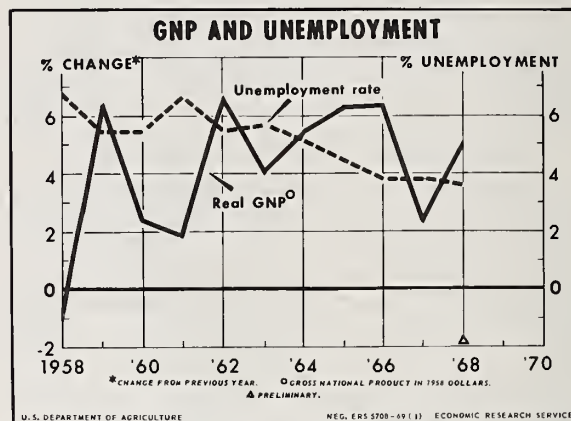
Personal income payments rose strongly in 1968 with higher employment and substantial wage increases. A relatively sharp rise in social insurance benefits plus gains in dividends, interest, and rental incomes also added to purchasing power. While high employment rates helped strengthen wage demands of the more skilled workers, lower income groups were aided by increases in minimum wages.



Wage contracts may not have the same impact on income payments in 1969 as they did in 1968, particularly if the economy slows. Demand for cost-of-living increases may lessen if price advances

moderate and unemployment increases. Although unemployment reached a low of 3.3% of the labor force by year-end, unemployment rates were higher for teenagers, nonwhites, and low education groups.

Employment reached 76 million for 1968, about 2% over 1967. Agricultural employment continued to decline slightly. Unemployment may increase some if economic growth slows as expected.



### Prices

The general price level as measured by the gross national product deflator, rose nearly 4% from 1967 to 1968. Wholesale prices increased 2½% while the consumer price index climbed more than 4%. The wholesale price rise was due to both increasing farm and nonfarm prices.

While general price advances are expected to be slower during 1969, the cost-push on prices is expected to continue.

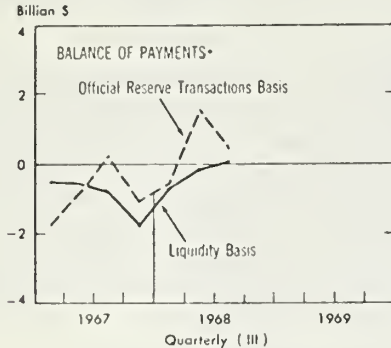
### Foreign Trade

Net exports (exports minus imports) of goods and services made some recovery in the second half of 1968 after a very poor first half. For the year, however, this balance was the lowest since 1959.

The merchandise trade surplus deteriorated markedly from \$3.5 billion in 1967 to about \$100 million in 1968. Most of this decline was due to the brisk rise of imports. The strong advance in U.S. eco-



economic activity and rising prices in this period attracted foreign goods and services. Strikes in the copper and aluminum industries and a threatened strike in the steel industry also stimulated metal imports.

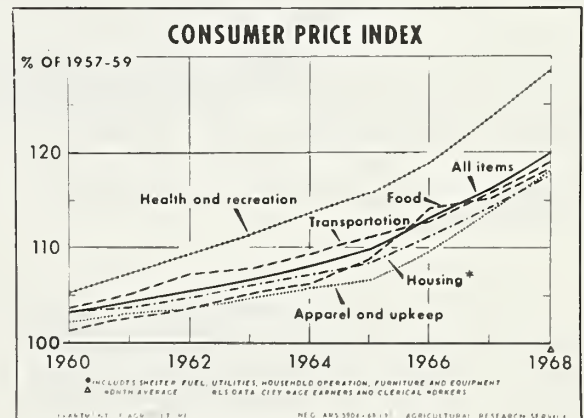
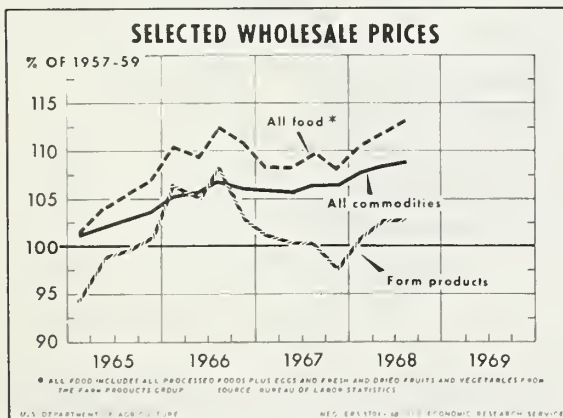


If the anticipated slowing of U.S. economic growth occurs, the increase in imports may moderate some in 1969. U.S. exports, on the other hand, should expand as our prices become more competitive and other nations correct international imbalances in their payments.

The Nation's balance of payments improved in 1968 despite the decline in our merchandise trade balance. However,

a large part of the gain was caused by greater foreign investment in American securities and the early success of mandatory controls on direct foreign investments. Some of these special factors may not continue in 1969 as foreign political and economic situations stabilize.

The U.S. gold stock has totaled above \$10½ billion since June 1968. The long-term U.S. balance of payments deficit as well as uncertainties accompanying devaluation of the British pound in November 1967 had led to heavy speculative demand for gold in early 1968. By March, U.S. gold stock was the lowest in 30 years. The gold drain and the general international monetary crisis led major monetary nations to establish a "two-tier" price for gold. A fixed official price at \$35 per ounce was set for monetary transactions among governments and a floating free market price for private transactions. This action plus U.S. determination to slow domestic price advances has apparently renewed confidence in the dollar. The franc crisis last November did not materially affect the dollar, but perhaps the net effect was to strengthen the dollar relative to the franc.





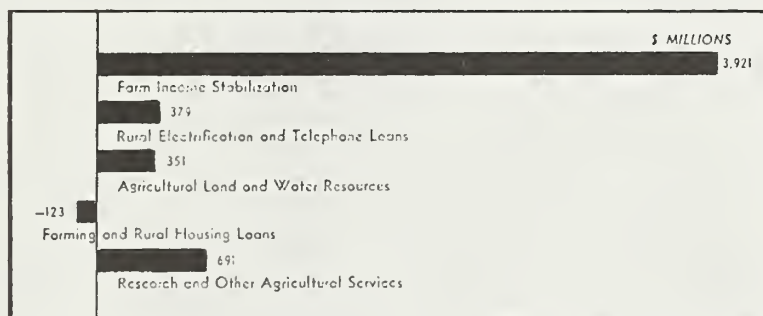


## 1970 Outlays by Function



## AGRICULTURE AND AGRICULTURAL RESOURCES

1970 Outlays----- \$5,181 Million



OFFICIAL BUSINESS

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FEBRUARY 1969

LIST OF TABLES

<u>Table</u>	<u>Title</u>	<u>Page</u>
	Selected measures of economic activity.....	2
1	U.S. agricultural exports, value of major commodities.....	8
2	Production and prices received by farmers for major livestock and livestock products, 1966-68.....	10
3	Supply-distribution and season average prices of selected major crops, 1965-69.....	12
4	General economic activity.....	16
5	Federal receipts and expenditures in the national income accounts, semi-annually-1966-68.....	18